

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name LeRoy-Rose Lake Fire District	County Osceola
Fiscal Year End 2/28/2006	Opinion Date 11/3/2006	Date Audit Report Submitted to State November 20, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State Zip MI 49601
Authorizing CPA Signature 		Printed Name Steven C. Arends, C.P.A.	License Number 1101013211

LEROY-ROSE LAKE FIRE DISTRICT

LEROY, MICHIGAN

FEBRUARY 28, 2006

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

FEBRUARY 28, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

November 3, 2006

INDEPENDENT AUDITORS' REPORT

To the Fire Board
LeRoy-Rose Lake Fire District
Osceola County
LeRoy, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the LeRoy-Rose Lake Fire District, Osceola County, LeRoy, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Fire District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire District's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the LeRoy-Rose Lake Fire District, Osceola County, LeRoy, Michigan, as of February 28, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Fire District has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of March 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 16 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LeRoy-Rose Lake Fire District, Osceola County, LeRoy, Michigan's basic financial statements. The individual fund financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

LeRoy-Rose Lake Fire District is a joint venture volunteer fire district supported by LeRoy Township, Rose Lake Township and the Village of LeRoy that has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the LeRoy-Rose Lake Fire District board's discussion and analysis of the financial results for the fiscal year ended February 28, 2006.

Financial Highlights

- ◆ The assets of the Fire District exceeded its liabilities at the close of the fiscal year by \$229,986. Of this amount, \$136,938 may be used to meet the Fire District's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$136,938.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fire District's basic financial statements. The Fire District's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for LeRoy-Rose Lake Fire District. The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire District's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire District is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Fire District that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire District include public safety. The fire district supports no business-type activities.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Fire District are governmental funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire District’s financial position over time. The Net Assets of the Fire District are \$229,986 at February 28, 2006, meaning the Fire District’s assets were greater than its liabilities by this amount.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

LeRoy-Rose Lake Fire District
Net Assets as of February 28, 2006

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ 136,938
Non Current Assets	
Capital Assets	\$ 361,953
Less: Accumulated Depreciation	<u>268,905</u>
Total Non Current Assets	<u>\$ 93,048</u>
Total Assets	<u><u>\$ 229,986</u></u>
Liabilities	<u>\$ 0</u>
Net Assets	
Invested in Capital Assets	\$ 93,048
Unrestricted	<u>136,938</u>
Total Net Assets	<u><u>\$ 229,986</u></u>
Total Liabilities and Net Assets	<u><u>\$ 229,986</u></u>

The most significant portions of the Fire District's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire District used to acquire or construct the asset.

At the end of the current fiscal year, the Fire District is able to report positive balance in net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire District. The condensed information was derived from the government-wide Statement of Activities.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Leroy-Rose Lake Fire District
Change in Net Assets
for the Fiscal Year Ended February 28, 2006

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 2,755
General Revenues	
Contributions from Local Units	119,051
Interest Earnings	<u>1,233</u>
Total Revenues	<u>\$ 123,039</u>
<u>Expenses</u>	
Public Safety	<u>\$ 85,577</u>
Change in Net Assets	\$ 37,462
NET ASSETS - Beginning of Year	<u>192,524</u>
NET ASSETS - End of Year	<u>\$ 229,986</u>

Governmental Activities

During the fiscal year ended February 28, 2006, the Fire District's net assets increased by \$37,462 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Fire District to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of LeRoy-Rose Lake Fire District comes from LeRoy Township, Rose Lake Township and the Village of LeRoy. Each unit contributes an amount based on taxable value in each unit to support the Fire District. This revenue is shown as contributions from local units.

The Fire District's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire District spent \$85,577 in fiscal year 2006 on public safety expenses. Expenses for insurance represent a large portion of the public safety expenses at \$14,244. Depreciation expense added another \$16,578.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Financial Analysis of the Government's Funds

Governmental Activities The focus of LeRoy-Rose Lake Fire District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire District's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund – At the end of the current fiscal year, LeRoy-Rose Lake Fire District's general fund reported an ending fund balance of \$136,938. All of the General Fund's fund balance is unreserved. The fund balance of the Fire District's general fund increased by \$54,040 during the current fiscal year.

Capital Assets and Debt Administration

Capital Assets. The Fire District's investment in capital assets for governmental activities as of February 28, 2006 amounted to \$93,048 net of accumulated depreciation. The total net decrease in the Fire District's investment in capital assets for the current fiscal year was \$16,578.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and have a useful life greater than one year. A summary of capital asset categories is illustrated below:

LeRoy-Rose Lake Fire District
Capital Assets as of February 28, 2006

	Governmental Activities
Buildings	\$ 21,775
Building Improvements	23,960
Equipment and Vehicles	316,218
	<hr/>
	\$ 361,953
Less Accumulated Depreciation	268,905
	<hr/>
Net Capital Assets	\$ 93,048
	<hr/>

Long-Term Debt. As of February 28, 2006, the Fire District was not obligated for any long-term debt.

Economic Condition and Outlook

The Fire District is expected to be supported by the Townships and Village in the future.

The mills to be levied for the 2006 tax roll for fire protection are expected to be similar to 2005.

These factors were considered in preparing the Fire District's budgets for the 2006-07 fiscal year.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire District's finances and to demonstrate the Fire District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact LeRoy-Rose Lake Fire District at 16519 140th Avenue, LeRoy, Michigan 49655.

LEROY-ROSE LAKE FIRE DISTRICT

LEROY, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 28, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 136,938
<u>CAPITAL ASSETS</u>	
Buildings	\$ 21,775
Building Improvements	23,960
Equipment and Vehicles	316,218
	\$ 361,953
Less Accumulated Depreciation	268,905
Total Capital Assets	\$ 93,048
TOTAL ASSETS	\$ 229,986
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	\$ 0
<u>NET ASSETS</u>	
Invested in Capital Assets	\$ 93,048
Unrestricted	136,938
TOTAL NET ASSETS	\$ 229,986
TOTAL LIABILITIES AND NET ASSETS	\$ 229,986

The accompanying notes are an integral part of the financial statements.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			TOTALS	NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
<u>PRIMARY GOVERNMENT</u>						
<u>GOVERNMENTAL ACTIVITIES</u>						
Public Safety	\$ 85,577	\$ 2,755	\$ 0	\$ 0	\$	(82,822)
<u>GENERAL REVENUES</u>						
						\$ 119,051
						1,233
						\$ 120,284
						\$ 37,462
						192,524
						\$ 229,986

The accompanying notes are an integral part of the financial statements.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

GOVERNMENTAL FUND

BALANCE SHEET
FEBRUARY 28, 2006

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 136,938
	<u>136,938</u>
<u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	\$ 0
<u>FUND BALANCE</u>	
Unreserved	
Undesignated	<u>136,938</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 136,938

The accompanying notes are an integral part of the financial statements.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

GOVERNMENTAL FUND

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FEBRUARY 28, 2006

Total Fund Balance for Governmental Funds	\$	136,938
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Buildings	\$	21,775	
Building Improvements		23,960	
Equipment and Vehicles		316,218	
Accumulated Depreciation		<u>(268,905)</u>	<u>93,048</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>229,986</u></u>
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The accompanying notes are an integral part of the financial statements.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED FEBRUARY 28, 2006

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Contributions from Local Units	\$ 119,051
Charges for Services	2,755
Interest and Rents	<u>1,233</u>
Total Revenues	<u>\$ 123,039</u>
<u>EXPENDITURES</u>	
Public Safety	<u>\$ 68,999</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 54,040
<u>FUND BALANCE</u> - Beginning of Year	<u>82,898</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 136,938</u></u>

The accompanying notes are an integral part of the financial statements.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

GOVERNMENTAL FUND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FEBRUARY 28, 2006

Net change in Fund Balances Total Governmental Funds	\$ 54,040
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	<u>(16,578)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 37,462</u></u>
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The accompanying notes are an integral part of the financial statements.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Leroy-Rose Lake Fire District is a joint venture fire department supported by Leroy Township, Rose Lake Township and the Village of Leroy. Each township levies millage to support the Fire Department. The property tax collections and taxes receivable are recognized by the individual townships. The Fire District recognizes the funds received from the two townships as aid from other governmental units. Under the criteria established by generally accepted accounting principles, the Fire District has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During the fiscal year 2005, the Fire District adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Fire District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire District are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

LeRoy-Rose Lake Fire District reports the following major governmental funds:

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Fire District's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Fire Department's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

I. State statutes authorize the Fire Department to invest funds as follows:

- a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. In repurchase agreements consisting of instruments listed in subdivision (a).
- e. In bankers' acceptances of United States banks.
- f. In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- g. In mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

- i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund received collateral at all times equal to at least 100% of the value of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA7, MCL 124.501 to 124.512.
- i. In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- j. In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- II. A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- III. Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- IV. As used in this section "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. Fire District revenues are recognized when they become both measurable and available for use to finance Fire District operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2005 – 2006 fiscal year, the LeRoy-Rose Lake Fire District received as aid \$45,865 from LeRoy Township, and \$73,186 from Rose Lake Township.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Land Improvements	20
Buildings	50
Building Improvements	20
Vehicles	5-10
Equipment	5-10

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified cash basis based on the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on February 22, 2005, or as amended by the Fire District Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Fire District Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire District because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The District's deposits are all on deposit with Citizens Bank in LeRoy, Michigan.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of February 28, 2006, \$35,335 of the government's bank balance of \$135,335 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, the District held no investments.

B. Receivables

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

No deferred revenue was recorded at the end of the current fiscal year.

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets				
Buildings	\$ 21,775	\$ 0	\$ 0	\$ 21,775
Building Improvements	23,960	0	0	23,960
Equipment and Vehicles	316,218	0	0	316,218
Total capital assets, being depreciated	\$361,953	\$ 0	\$ 0	\$361,953
Less accumulated depreciation for:				
Buildings	\$ 14,045	\$ 435	\$ 0	\$ 14,480
Building Improvements	12,978	1,198	0	14,176
Equipment and Vehicles	225,304	14,945	0	240,249
Total accumulated depreciation	\$252,327	\$ 16,578	\$ 0	\$268,905
Governmental activities capital assets, net	\$109,626	\$(16,578)	\$ 0	\$ 93,048

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

 Public Safety \$ 16,578

Construction Commitments:

The district has no outstanding construction commitments as of February 28, 2006.

D. Long-Term Debt

At February 28, 2006, the District was not obligated for any long-term debt.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

IV. OTHER INFORMATION

A. Property Taxes

Each Township which is a member of the Fire District levies property tax millage to support the Fire District. The property tax collections and taxes receivable are recognized by the individual township and remitted to the Fire District periodically. The Fire District recognizes the funds received from the townships as contributions from local units.

B. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters, and worker's compensation claims. The government carries commercial insurance to guard against loss from these risks.

LEROY-ROSE LAKE FIRE DISTRICT
LEROY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Federal Grants	\$ 50,000	\$ 50,000	\$ 0
Contributions from Local Units	115,300	115,300	119,051
Charges for Services	3,000	3,000	2,755
Interest and Rents	1,000	1,000	1,233
Other Revenues	82,666	82,666	0
Total Revenues	\$ 251,966	\$ 251,966	\$ 123,039
<u>EXPENDITURES</u>			
Public Safety	\$ 227,016	\$ 227,016	\$ 68,999
Excess (Deficiency) of Revenues Over Expenditures	\$ 24,950	\$ 24,950	\$ 54,040
<u>FUND BALANCE</u> - Beginning of Year	82,666	82,666	82,898
<u>FUND BALANCE</u> - End of Year	\$ 107,616	\$ 107,616	\$ 136,938

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

November 3, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board
Leroy-Rose Lake Fire District
Osceola County
Leroy, Michigan

As a result of our audit of the financial statements of the Leroy-Rose Lake Fire District for the year ended February 28, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the Fire District:

Condition of Accounting Records

The accounting records were again found to be in excellent condition. We would like to congratulate the Treasurer for doing a good job and thank her for her efforts in accumulating the information needed for the audit.

Budgeting

The Fire District did a good job of complying with Michigan Public Act 621 of 1978, "The Uniform Budgeting and Accounting Act."

Investment Policy

Public Act 196 of 1997 requiring all local units of government to adopt an investment policy became effective on December 30, 1997. The law requires the policy to provide a statement of purpose, a delegation of authority to make investments, a list of authorized investment instruments, and to provide procedures for safekeeping of assets. We suggest that the Fire Department coordinate with the Townships to adopt a policy similar to the one the Townships adopt.

GASB 34

These financial statements are reported under the new GASB 34 accounting standard and are much different than in the past.

Some of the changes required by GASB 34 are as follows:

1. Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
2. Several new types of financial statements are now included that reports financial information on a Fire District-wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Fire District.

Capitalization Policy

The Department should officially adopt and record in the minutes its' Capitalization Policy of \$5,000. We have provided an appropriate sample policy for the board to consider for adoption.

We would like to thank the board for awarding our firm the audit assignment of the District and to thank the Treasurer for her cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

M. WAYNE BEATTIE, C.P.A.
1902 - 1990

JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

November 3, 2006

LETTER OF REPORTABLE CONDITIONS

To the Fire Board
LeRoy-Rose Lake Fire District
Osceola County
LeRoy, Michigan

In planning and performing our audit of the basic financial statements of LeRoy-Rose Lake Fire District, LeRoy, Michigan for the year ended February 28, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Fire District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.